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THE REPUBLIC OF UGANDA

Use of Term Contracts for National Roads Maintenance: The Benefits and Lessons Learnt

Overview

Term Maintenance Contract refers to a written agreement to carry out maintenance works within a fixed duration usually broken into cycles of six months each. During the contract period, the client is obliged to specify to the contractor the maintenance activities to be carried out with exact locations indicated.

If roads deteriorate to the point at which they need reconstruction, restoring them to the original level of service costs between three to five times more than timely and effective maintenance. In addition, for every dollar that road agencies withhold by underfunding maintenance, road users must spend about three dollars in additional vehicle operating costs (Gunter, 2007).

Therefore, the economy as a whole (although not necessarily the road agency itself) benefits from timely road maintenance at any reasonable discount rate.

This briefing paper presents the benefits of term maintenance contracts in the road sector, discusses the challenges encountered, the lessons learnt and gives policy recommendations.

Key Issues

- Prolonged procurement processes are affecting timely commencement of planned maintenance works.
- Low financial and technical capacity of the construction industry.
- Inadequate quantities of gravel material.
- Inadequate funding for road maintenance.

Introduction

The Government of Uganda (GoU) is committed to developing the infrastructure sector with an allocation of Ug shs 2,466.82 billion and Ug shs 2,305.3 billion for infrastructure development in transport in the Financial Year (FY) 2013/14 and FY 2014/15 respectively. With this funding, the proportion of the national unpaved road network in fair to good road network currently measures at 68% while that of the national paved road network is at 80% . The target for the FY 2014/15, is to improve further to 75% and 85% respectively over the medium term.

[1] *MoWT Ministerial Policy Statement(MPS) FY2014/15*
[2] *MoWT MPS FY2014/15*
[3] *MoWT Annual Sector Performance report FY2013/14*

This is being achieved through upgrading of unpaved roads to paved and maintenance of the existing ones (both paved and unpaved). Therefore the need for maintenance of the old and newly constructed roads cannot be overlooked.

Studies by the World Bank showed that contracting road maintenance to the private sector can reduce maintenance cost by 30% – 50%. Therefore routine and periodic road maintenance done by in-house labor is increasingly being replaced by contracts with the private sector. The use of term maintenance contracts is one of the initiatives by Uganda National Roads Authority (UNRA) to ensure that national roads are kept motorable throughout the year at a relatively low cost.

Term contracts are longer contracts, usually two-three years compared to periodic contracts (about six months). They are usually broken down into four - six cycles of six months each. This initiative is hinged on the following reasons: the inadequate equipment base owned by UNRA; procurement challenges, and the inadequate staffing to supervise maintenance works. Term contracts were initiated to provide a remedy to the effects of the above factors. The mode of implementation of the contract is that the agency (UNRA) enters into agreement with the service provider/contractor to carry out maintenance works on roads (usually lumped) for a certain period of time.

The UNRA project manager defines the scope of works in a cycle through issue of an instruction to work.

Benefits Realised

The benefits that have come with term contracts can be grouped into three categories as: to the Road Agency (UNRA), Road Users and Contractors.

Road Agency (UNRA)

No frequent claims: Term contracts have been associated with limited claims and contractual amendments usually suffered in other contracts such as periodic maintenance and traditional contracts. Claims and contractual amendments lead to increased quantities of work and the result would be an increased maintenance cost. These associated costs are limited under term contracts.

Long term maintenance funding: There is flexibility in terms of mobilisation of funds since the work is broken down into four – six cycles each of six (6) months. These cycles require relatively lower sums of money compared to periodic contracts which would require a lump sum in a short period of time. The agency will therefore provide funds per cycle of work to be carried out.

Effective contract management of staff: The UNRA staff are engaged in contract management thus enhancing their capacity to handle bigger contracts.

Improved control and enforcement of quality standards: The UNRA supervisors are in control since the contractor is only asked to work on sections of the road which require maintenance as viewed by the implementing agency/client.

Defects easily corrected and reduction in road rehabilitation: Gravel roads are easily damaged by heavy rains and traffic; and so need urgent intervention as and when the defects appear. With term contracts, UNRA has undertaken urgent maintenance works for defects as they arise since work is done in cycles. The agencies have assurance that defects which have not been captured during the current cycle will be handled in the proceeding ones. The overall result is reduced road needs for rehabilitation.

Improved absorption of funds: In most cases it takes more than a quarter for the contractor to accumulate quantities for an Interim Payment Certificate (IPC) threshold in a periodic maintenance contract as compared to a term contract. In the former, agencies wait for the following quarter when the contractor has accumulated the required minimum for the IPC for them to spend released funds. This reflects poorly on the absorptive capacity. Term contracts have solved this problem.

Reduced road maintenance costs: The use of term contracts has led to a financial saving. As indicated in Table 1, all the contracts had achieved more physical progress than what had been expended. For example during the term maintenance of Rakai–Nantamukye (50km), Villamaria–Sembabule (38km) and Sembabule–Nkonge (58km); 86.5% of the contract sum was expended on the works. This is evidence that there are savings under term maintenance contracts at the end of the contracting period.

Road Users

The road users have benefited from better and safe roads with consistent conditions and reduced user costs. For instance, during the rainy season, there is reduced time of travel and cases of accidents by commercial vehicles (which would have been got stuck in mud) along Villamaria–Sembabule, Sembabule–Nkonge and Wandi-Yumbe roads.

Road Contractors

Building capacity of the local construction industry: Contractors have guaranteed workload over a longer period (two – three years). This has helped build the technical and financial capacity of the local contractors although it is not yet at the desired level. Technically, the staff engaged in road works gain relevant experience.

Low collateral requirement: The cash flow requirements under term contracts are low compared to periodic contracts. Few contractors can afford to secure such high financing from the banks under periodic contracts because more assets are required as collateral.

Table 1: Physical and financial performance of some term maintenance contracts monitored

Project Name	Contract Sum (Ug shs) billion	Amount Spent (Ug shs) billion	Financial Performance	Physical Progress achieved
Term Maintenance of Rakai – Nantamukye (50km), Villamaria – Sembabule (38km) and Sembabule – Nkonge (58km)	3.847	3.327	86.5% as at Dec. 2014	100% as at Dec. 2014
Term maintenance of Nadunget-Iriri road (70km)	2.214	1.817	82.1% as at Dec. 2014	82.5% as at Dec. 2014
Term maintenance of Iganga-Mayuge (20km), Musita-Mayuge(14km), Mayuge-Nankoma (23km),) and Mayuge-Bugadde-Bwondha (39.5km)	2.878	1.956	68% by Nov. 2014	93% as at Nov. 2014
Term maintenance of Wandi-Yumbe road (70 km)	3.306	0.517	15.7% as at Jan. 2015	50% as at Jan. 2015

Source: BMAU Semi-Annual Report FY 2014/15

Challenges

Prolonged procurement processes

The procurement process of term contracts has unnecessarily taken longer than anticipated. For instance, procurement of contractors for planned works for FY2014/15 had not been finalised by January 2015 for all the UNRA stations monitored. On average the procurement takes a full financial year to be finalised. This was attributed to the new requirement for undertaking due diligence on all procurements, verifying guarantees/securities, associated administrative reviews and backlog of evaluation reports. In such cases, the UNRA stations cannot implement works as planned and so have to provide alternative funding to facilitate emergency interventions.

Low capacity of the construction industry The contracting companies are still under developed in terms of staff, equipment and financial capacity. Contractors are unable to commence works by providing materials, equipment, labour/staff and to manage the associated risk. A weak local construction industry contributes to high costs of road construction and maintenance.

Inadequate quantities of gravel material: The quantities of gravel across the country are getting depleted.

In a few cases where gravel exists, the haulage distance is at times higher than the 10km usually allowed for in the road maintenance contracts. This has led to an increased unit cost of road maintenance.

Inadequate funding for road maintenance: Although funding for the transport sector has been high relative to other sectors, resources have proved insufficient to deliver the full range of transport infrastructure and maintenance requirements.

Lessons Learnt

- The maintenance programme will gradually result in an increase in the proportion of roads in "fair to good condition". Currently, 80% of paved national roads and 68% of the unpaved national roads are classified as being in "fair to good condition". The paved roads improved from 77% to 80%, whereas the unpaved roads improved from 66% to 68% in FY2013/14.

- Adequate contractor capacity is necessary to ensure meaningful competition and to enable the contractors to achieve the required performance standards.
- Lumping of the roads done under term contracts is cheaper in terms of contract administration than having one periodic contract for each road; given the low staffing levels at UNRA stations.
- For positive results, a deteriorated road needs to be rehabilitated before term maintenance procedures begin. This was the case on Villamaria–Sembabule and Sembabule–Nkonge roads.

Conclusion

The maintenance programme using term contracts will gradually result in an increase in the proportion of roads in "fair to good condition". However to avoid loss of asset value, the National Roads Maintenance Programme must be accompanied by a fully funded Road Maintenance Programme, which should ensure that roads once brought to fair or good condition will not deteriorate from the attained state.

Policy Recommendations

Reduce on the backlog of evaluation reports and administration reviews

The UNRA should engage external consultants as third party service providers during evaluation of contracts to advise and assist with the contracting process. The selection of the external consultants for such work could be undertaken by means of competitive tenders in accordance with the procurement legislation.

Capacity Building of contractors: The Ministry of Works and Transport (MoWT) should fast track the establishment of the Uganda Construction Industry Council (UCICO) to foster capacity building and regulate the domestic industry.
The UNRA should offer feedback to contractors and consultants on their performance so as to improve future projects. This feedback should indicate the key areas contractors need to address for improvement.

The Public Procurement and Disposal of Public Assets Authority should implement preference and reservation schemes. Under this arrangement, the GoU should favour eligible local contractors. This will help contractors and consultants get adequate experience to take up big contracts.

Further Research: The MoWT and UNRA should appropriate funding to facilitate research in alternative road construction materials to replace the depleting gravel. In addition, they should partner with higher institutions of learning to conduct research in road construction technologies.

Improved funding: The Uganda Road Fund (URF) should lobby for improved funding for road maintenance through operationalization of the Road Fund as Second Generational (2G) fund with collection and direct remittance of Road User Charges (RUCs) as provided for in the URF Act, 2008, Part V. Section 14 of the URA Act should be amended to enable URF operate as a 2G fund.

References

1. Annual Budget Monitoring Reports FY 2013/14 and FY 2014/15 Semi-annual
2. Budget Speech FY2014/15
3. MoWT MPS FY2014/15
4. MoWT Annual Sector Performance report FY2013/14
5. Gunter, Z. (2007); Performance-Based Road Management and Maintenance Contracts – Worldwide Experiences.

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